SaskTel

Financial Statements of

DIRECTWEST CORPORATION

December 31, 2005

106-04464/

President's Message

DirectWest, a wholly owned subsidiary of SaskTel, has been publishing telephone directories in Saskatchewan for over 46 years. Our business has evolved to include new media opportunities and we have expanded into the internet market, the specialty publishing market, and the independent phone directory market outside Saskatchewan.

DirectWest publishes and distributes ten telephone directories in the cities and districts across Saskatchewan, and provides these directories online at Saskatchewan's leading internet portal: www.mysask.com. Besides consistently generating value through its directories (print and online), the company continues to add new services and solutions for its customers such as web site development, online advertising, e-mail marketing, e-commerce and specialty publications.

Our operating results in 2005 were very strong. Revenue increased by 3.5% to exceed $37.1 million. This increase enabled DirectWest to maintain net income at 2004 levels while undertaking strategic investments to launch the new independent directory business.

The directories industry has been growing rapidly in Canada in recent years and so this past spring, DirectWest made a move into the Alberta market. We purchased an 85 per cent interest in the assets of Midwest Marketing Inc. and we will continue to manage and expand the business in partnership with the owners of Midwest Marketing Inc. The business currently operates as "The Phone Book Company" in the Red Deer and Grande Prairie markets. In alignment with DirectWest's growth strategy, The Phone Book Company is expanding into Edmonton, Lethbridge, and Medicine Hat.

Meanwhile, in Saskatchewan, our market share rose in 2005 above 97%. All directory quality and customer performance measurements met or exceeded targets. Internet traffic continued to grow and the www.mysask.com internet portal continued to set usage records.

Elsewhere in our industry, the incumbent directory publisher in BC and Alberta, SuperPages, was sold to Yellow Pages Group who are now the dominant directory company everywhere in Canada except Manitoba and Saskatchewan.

Looking forward, the directory business in North America will continue to become more competitive. Independent publishers like The Phone Book Company will continue to grow more quickly than incumbent publishers associated with telecommunications companies. The Phone Book Company should have opportunities for further expansion in Alberta and elsewhere. Our Saskatchewan directory business is relatively mature, but we still expect to achieve modest growth in this area and maintain our leadership position. Technology will play an increasing role, providing growth opportunities, but also creating additional types of competition. Our internet business solutions will continue to innovate and generate growth, as we seek expanded markets and additional sources of revenue. In closing, I would like to thank our employees and customers, who have provided us with the strong position from which we anticipate further growth in 2006.

Gord Farmer
President, DirectWest

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AUDITORS' REPORT

To the Members of the Legislative Assembly, Province of Saskatchewan

We have audited the consolidated statement of financial position of DirectWest Corporation as at December 31, 2005 and the consolidated statements of operations, deficit and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Regina, Canada
February 7, 2006

KPMG LLP, a Canadian limited liability partnership is the Canadian member firm of KPMG International, a Swiss cooperative.

Consolidated Statement of Operations

For the year ended December 31, (Thousands of dollars)	2005	2004 (Note 1)
Gross revenue	$37,121	$35,853
Cost of sales	7,828	8,066
Gross profit	29,293	27,787
Operating expenses	27,080	25,367
Income from operations	2,213	2,420
Interest income	41	28
Non-controlling interest	89	-
Net income	$2,343	$2,448

See accompanying notes

Consolidated Statement of Deficit

For the year ended December 31, (Thousands of dollars)	2005	2004 (Note 1)
Deficit, beginning of year	($1,135)	($1,380)
Net income	2,343	2,448
	1,208	1,068
Dividends	(2,109)	(2,203)
Deficit, end of year	($901)	($1,135)

See accompanying notes

Consolidated Statement of Financial Position

As at December 31, (Thousands of dollars)	2005	2004 (Note 1)
Assets		
Current assets		
Cash and short-term investments (Note 4)	$2,642	$3,849
Accounts receivable	2,456	2,168
Inventory	148	56
Prepaid publishing costs	7,111	5,214
Prepaid expenses	61	29
	12,418	11,316
Property, plant and equipment (Note 5)	1,482	1,661
Intangible assets (Note 6)	1,107	-
Goodwill (Note 7)	503	232
	$15,510	$13,209
Liabilities and shareholder's equity		
Current liabilities		
Bank indebtedness	$330	$392
Accounts payable and accrued liabilities	2,103	1,392
Dividends payable	334	495
Deferred revenue	3,989	2,628
	6,756	4,907
Non-controlling interest	218	-
Shareholder's equity		
Share capital and contributed surplus (Note 8)	9,437	9,437
Deficit	(901)	(1,135)
	8,536	8,302
	$15,510	$13,209

See accompanying notes

On behalf of the Board:

Robert Watson

Randy Stephanson

Consolidated Statement of Cash Flows

For the year ended December 31, (Thousands of dollars)	2005	2004 (Note 1)
Cash provided by (used in):		
Operating activities		
Net income	**$2,343**	$2,448
Items not affecting cash (Note 9)	**981**	876
Other operating items (Note 10)	**(293)**	1,707
	3,031	5,031
Investing activities		
Property, plant and equipment expenditures	**(669)**	(197)
Investments acquired, net of cash acquired	**(1,237)**	-
	(1,906)	(197)
Financing activities		
Dividends paid	**(2,270)**	(2,079)
Increase (decrease) in cash during the year	**(1,145)**	2,755
Cash and cash equivalents, beginning of year	**3,457**	702
Cash and cash equivalents, end of year	**$2,312**	$3,457
Comprised of:		
Cash	**$553**	$-
Short-term investments	**2,089**	3,849
Bank indebtedness	**(330)**	(392)
	$2,312	**$3,457**

See accompanying notes

Notes to the Consolidated Financial Statements

Note 1 – Organization

On April 1, 2005, DirectWest Publishing Partnership was dissolved through agreement of the partners 3339807 Canada Ltd. and 3364381 Canada Ltd., related by way of a common shareholder. All of the assets and liabilities of the Partnership were transferred to 3339807 Canada Ltd. at book value. All shares of 3364381 Canada Ltd. were transferred to 3339807 Ltd. and it became a wholly-owned subsidiary of 3339807 Ltd. On April 12, 2005, 3339807 Canada Ltd. was renamed DirectWest Corporation (the Corporation). As a result, the 2004 comparatives reflect the combined operations of 3339807 Canada Ltd., 3364381 Canada Ltd. and Direct West Publishing Partnership.

The Corporation markets and supplies print and on-line telephone directories, internet advertising, marketing and business solutions in Saskatchewan and certain locations in Alberta. The Corporation also markets and supplies specialty publications throughout Canada.

The Corporation is wholly owned by Saskatchewan Telecommunications Holding Corporation (Holdco) through its subsidiary SaskTel Investments Inc. and the financial results are included in the consolidated financial statements of Holdco. As a wholly owned subsidiary of Holdco, a Saskatchewan Provincial Crown corporation, the Corporation is not subject to Federal or Provincial income taxes in Canada.

Note 2 – Significant accounting policies

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada.

Subsidiaries

The consolidated financial statements include the accounts of the Corporation and its subsidiaries with all significant intercompany transactions and balances being eliminated.

The following is a summary of the operating entities of the Corporation:

	Percentage ownership	Basis for inclusion
The Phone Book Company Partnership	85.0%	Consolidation

The following is a summary of the non-operating entities of the Corporation: 3364381 Canada Ltd. and Qu'appelle Holding, Inc.

Short-term investments

Short-term investments represent interest bearing investments with Holdco and financial institutions that are due on demand and are stated at cost which approximates market value.

Inventory

Inventory is valued at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis.

Notes to the Consolidated Financial Statements

Note 2 – Significant accounting policies, continued

Prepaid publishing costs

The Corporation defers expenses that are directly related to its publications, including printing and distribution costs, direct production salaries and salaries of sales staff. These costs are charged to income over the life of the related publication. Indirect costs are expensed as incurred.

Property, plant and equipment

Property, plant and equipment is recorded at cost less accumulated depreciation and amortization. Depreciation and amortization is calculated on a straight-line basis over the estimated useful lives of the assets.

Asset	Estimated useful life
Office furniture, equipment and leaseholds	2-10 years

Finite-life intangible assets

Finite-life intangible assets acquired in a business combination are recorded at their fair values. Amortization is calculated over the estimated useful lives of the assets.

Asset	Estimated useful life
Non-competition agreement	6 years
Customer list and relationships	10 years
Creative value of directories	3 years

Finite-life intangible assets are tested for impairment when events or changes in circumstances indicate that their carrying value may not be recoverable. They are written down to fair value when the related undiscounted cash flows are not expected to allow for recovery of the carrying value.

Indefinite-life intangible assets

Intangible assets with an indefinite life are not subject to amortization; they are tested annually for impairment to ensure that their fair value is greater than or equal to their carrying value. Any excess of carrying value over fair value is charged to income in the period in which impairment is determined.

Goodwill

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values. Goodwill is allocated as of the date of the business combination to the Corporation's reporting units that are expected to benefit from the synergies of the business combination.

Goodwill is not amortized and is tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared with its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered

Notes to the Consolidated Financial Statements

Note 2 – Significant accounting policies, continued

not to be impaired and the second step of the impairment test is unnecessary. The second step is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case the implied fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. The implied fair value of goodwill is determined in the same manner as the value of goodwill is determined in a business combination described in the preceding paragraph, using the fair value of the reporting unit as if it was the purchase price. When the carrying amount of reporting unit goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess and is presented as a separate line item in the consolidated statement of operations, before extraordinary items and discontinued operations.

Revenue recognition

Revenues are earned through the sale of print and electronic telephone directory advertising, on-line advertising and advertising in specialty publications. Advertising revenues are generally recognized, in accordance with the contractual terms with advertisers, on a monthly basis over the life of the print directory or electronic directory advertising commencing with the delivery or display date, respectively. Amounts billed up front for directories are deferred and recognized over the corresponding life of the related directory.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated at the year-end exchange rates. Revenues and expenses are translated at rates of exchange prevailing on the transaction dates. Translation gains and losses on foreign currency denominated monetary items are taken into income in the current year.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent asset and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the carrying amount of accounts receivable and underlying provision for bad debts, property, plant and equipment, intangible assets, goodwill, and the recoverability of prepaid publishing costs. The inherent uncertainty involved in making such estimates and assumptions may impact the actual results reported in future periods.

Derivative financial instruments

Derivative financial instruments are used by the Corporation in the management of its foreign currency exposure. The Corporation's policy is not to use derivative financial instruments for trading or speculative purposes.

The Corporation purchases forward foreign exchange contracts to hedge foreign currency risks on telephone directory printing contracts with suppliers outside Canada, and the related accounts payable. These instruments are not recognized in the consolidated financial statements on inception. Foreign

Notes to the Consolidated Financial Statements

Note 2 – Significant accounting policies, continued

exchange gains and losses on these contracts are recognized as an adjustment of the costs when the purchase is recorded. The portion of the premium or discount on the contracts relating to the period prior to the consummation of the purchase is also recognized as an adjustment of the costs when the purchase is recorded and the portion of the premium or discount relating to the resulting accounts payable is amortized as an adjustment of interest expense over the remaining term of the contract.

The Corporation formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and liabilities on the balance sheet or to specific firm commitments or anticipated transactions. The Corporation also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Realized and unrealized gains or losses associated with derivative instruments, which have been terminated or cease to be effective prior to maturity, are deferred under other current, or non-current, assets or liabilities on the balance sheet and recognized in income in the period in which the underlying hedged transaction is recognized. In the event a designated hedged item is sold, extinguished or matures prior to the termination of the related derivative instrument, any realized or unrealized gain or loss on such derivative instrument is recognized in income.

Note 3 – Acquisition

On April 1, 2005 the Corporation, through its subsidiary 3364381 Canada Ltd., purchased an 85.0% interest in the assets of Midwest Marketing Inc. (Midwest). The Corporation and Midwest together formed The Phone Book Company Partnership, registered under the Partnership Act, Alberta, and transferred their respective 85.0% and 15.0% interests in the assets into the Partnership. The Partnership, operating as The Phone Book Company, publishes directories in the Red Deer, Grande Prairie, and Edmonton markets in Alberta. Total consideration for the 85.0% interest in the assets was $1.6 million. The Partners also injected $2.0 million cash into the Partnership ($1.7 million by the Corporation and $0.3 million by Midwest) to support working capital requirements and expansion of the business. The Corporation owns an 85.0% share in the Partnership, holding 170 of the total 200 Partnership Units issued by the Partnership.

The total consideration, the fair value of the Corporation's portion of the identifiable net assets acquired, and the resulting goodwill is as follows:

(Thousands of dollars):	
Total consideration	$1,615
Total tangible assets	406
Total intangible assets	1,284
Total liabilities	(346)
Net assets acquired	1,344
Goodwill acquired during 2005	$271

Notes to the Consolidated Financial Statements

Note 4 – Cash and short-term investments

Short-term investments represent funds invested with Holdco and financial institutions at an average interest rate of 3.00% (2004 – 2.26%).

Note 5 – Property, plant and equipment

	Cost	Accumulated depreciation and amortization	Net book value	
			2005	2004
			(Thousands of dollars)	
Office furniture, equipment and leaseholds	$7,969	$6,487	$1,482	$1,661

Depreciation and amortization expense is included in the statement of operations as follows:

	2005	2004
	(Thousands of dollars)	
Cost of sales	$404	$404
Operating expenses	666	472
	$1,070	$876

Note 6 – Intangible assets

	Cost	Accumulated amortization	Net book value	
			2005	2004
			(Thousands of dollars)	
Non-competition agreement	$476	$116	$360	-
Customer list and relationships	688	52	636	-
Other	120	9	111	-
	$1,284	$177	$1,107	-

Other intangible assets include $0.1 million indefinite life intangible assets as at December 31, 2005.

Notes to the Consolidated Financial Statements

Note 7 – Goodwill

The changes in the carrying amount of goodwill are as follows:

	2005	2004
	(Thousands of dollars)	
Balances as at January 1.	$232	$232
Acquired during the year (Note 3)	271	-
Balances as at December 31.	$503	$232

Note 8 – Share capital and contributed surplus

	2005	2004
	(Thousands of dollars)	
Share capital		
Authorized - unlimited number of class A common shares		
Issued – 100 shares	$-	$-
Contributed surplus	9,437	9,437
	$9,437	$9,437

Note 9 – Items not affecting cash

	2005	2004
	(Thousands of dollars)	
Depreciation and amortization	$1,070	$876
Other	(89)	-
	$981	$876

Note 10 – Other operating items

	2005	2004
	(Thousands of dollars)	
Changes in non-cash working capital:		
Accounts receivable	($91)	$1,216
Inventory	(92)	47
Prepaid publishing costs	(1,743)	163
Prepaid expenses	(32)	24
Accounts payable and accrued liabilities	711	127
Deferred revenue	954	130
	($293)	$1,707

Notes to the Consolidated Financial Statements

Note 11 – Financial instruments

Currency exposure

The Corporation's foreign exchange risk relates primarily to the risk that the market value of accounts payable and the associated expenses will fluctuate due to changes in exchange rates. The Corporation enters into forward foreign exchange contracts to hedge its foreign currency exposure on telephone directory printing costs. The contracts oblige the Corporation to buy foreign currency in the future at predetermined exchange rates. At December 31, 2005, the Corporation had purchased contracts to buy U.S. $0.7 million in installments from March to May, 2006 at exchange rates ranging from 1.149 to 1.147.

Credit risk

The Corporation has a sufficiently diversified customer base that it is not subject to any significant concentration of credit risk. Pursuant to an agreement, the Corporation mitigates its credit risk from the Saskatchewan directories, by selling its receivables to SaskTel for a fee.

Fair value

The carrying amounts of short-term investments, derivative financial instruments, accounts receivable, bank indebtedness, accounts payable and accrued liabilities, and dividends payable approximate fair value due to the short-term nature of these financial instruments.

The forward foreign exchange contracts, that have become favorable, constitute an unrecognized financial asset of approximately $8 thousand.

Note 12 – Related party transactions

Included in these financial statements are transactions with Holdco and its subsidiaries, various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to Crown Investments Corporation of Saskatchewan (CIC) by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as "related parties").

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. Other transactions in the normal course of operations are recorded at the exchange amount which is the amount of consideration established and agreed to by the related parties. These transactions and amounts outstanding at year-end are as follows:

	2005	2004
	(Thousands of dollars)	
Operating revenues	$2,215	$1,925
Operating expenses	14,936	14,952
Interest income	15	27
Accounts receivable	1,810	1,838
Property, plant and equipment	137	5
Accounts payable and accrued liabilities	173	30

Notes to the Consolidated Financial Statements

Note 12 – Related party transactions, continued

In addition, the Corporation pays Saskatchewan Provincial Sales Tax to the Saskatchewan Department of Finance on all taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

Other amounts and transactions due to (from) related parties and terms of settlement are described separately in these financial statements and notes thereto.

Note 13 – Commitments and contingencies

The Corporation is committed to future minimum payments under operating leases in each of the next five years as follows:

	(Thousands of dollars)
2006	$229
2007	152
2008	46
2009	35
2010	16

In addition, the Corporation has contracted to purchase approximately $3.0 million of newsprint over the next three years and has contracted to suppliers for goods and services of approximately $1.0 million and U.S. $3.0 million over the next three years.

In the normal course of operations, the Corporation may become involved in various claims and litigation. While the final outcome with respect to claims and litigation cannot be predicted with certainty, it is the opinion of management that any resolution would not have a material adverse effect on the Corporation's financial position or results of operations.

Note 14 – Subsequent events

On January 10, 2006, the Corporation, through its subsidiary the Phone Book Company Partnership, purchased a 100% interest in the directory assets of THE Telephone Book COMPANY Inc. for cash consideration of $0.3 million. THE Telephone Book COMPANY Inc. is an independent telephone directory publisher serving the Alberta communities of Brooks, Medicine Hat, Redcliff, and Bow Island. These assets will be integrated into the Phone Book Company Partnership. As a result of this investment, the Corporation's ownership position in the Phone Book Company Partnership has increased from 85.0% to 86.4%.